AFLAC RE BERMUDA LTD.

Financial Statements

December 31, 2022

(With Independent Auditors' Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Aflac Re Bermuda Ltd.

Opinion

We have audited the financial statements of Aflac Re Bermuda Ltd (the "Company"), which comprise the balance sheet as of December 31, 2022, and the related statement of earnings, statement of comprehensive loss, statement of shareholder's equity, and statement of cash flows for the period then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the period then ended in accordance with U.S. generally accepted accounting principles.

Basis for opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional scepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
June 13, 2023

AFLAC RE BERMUDA LTD.

Balance Sheet

December 31, 2022

(In thousands)		**2022**
Assets:		
Investments and cash:		
Fixed-maturity securities available-for-sale, at fair value (no allowance for credit losses, amortized cost $37,060)		38,051
Cash and cash equivalents		197,182
Total investments and cash		235,233
Accrued investment income		560
Amounts receivable for reinsurance		520
Net deferred tax asset		1,444
Total assets	$	237,757
Liabilities and Shareholder's Equity:		
Liabilities:		
Policy liabilities:		
Future policy benefits	$	41,175
Total policy liabilities		41,175
Federal income tax liability		908
Other		1,061
Total liabilities		43,144
Shareholder's Equity:		
Common stock of $1 par value. Authorized, 250,000 shares; issued and outstanding, 250,000 shares		250
Additional paid-in capital		196,250
Retained earnings (deficit)		(2,799)
Accumulated other comprehensive income (loss):		
Unrealized gains (losses) on fixed-maturity securities		783
Effect of changes in discount rate assumptions		129
Total shareholder's equity		194,613
Total liabilities and shareholder's equity	$	237,757

See the accompanying Notes to the Financial Statements.

AFLAC RE BERMUDA LTD.

Statement of Earnings

For the period June 6, 2022 (date of incorporation) to December 31, 2022

(In thousands)		**2022**
Revenues:		
Net earned premiums	$	952
Net investment income		1,863
Net realized gains (losses)		(3,425)
Total revenues (loss)		(610)
Benefits and expenses:		
Benefits and claims, excluding reserve remeasurement		1,054
Reserve remeasurement (gains) losses		—
Total benefits and claims, net		1,054
Acquisition and operating expenses:		
Insurance and other expenses		1,879
Total acquisition and operating expenses		1,879
Total benefits and expenses		2,933
Earnings (loss) before income taxes		(3,543)
Income tax expense (benefit)		(744)
Net earnings (loss)	$	(2,799)

See the accompanying Notes to the Financial Statements.

AFLAC RE BERMUDA LTD.

Statement of Comprehensive Income (Loss)

For the period June 6, 2022 (date of incorporation) to December 31, 2022

(In thousands)		**2022**
Net earnings (loss)	$	(2,799)
Other comprehensive income (loss) before income taxes:		
Unrealized gains (losses) on fixed-maturity securities:		
Unrealized holding gains (losses) on fixed-maturity securities		991
Effect of changes in discount rate assumptions during the period		129
Total other comprehensive income (loss) before income taxes		1,120
Income tax expense (benefit) on other comprehensive income (loss)		208
Other comprehensive income (loss), net of income taxes		912
Total comprehensive income (loss)	$	(1,887)

See the accompanying Notes to the Financial Statements.

AFLAC RE BERMUDA LTD.

Statement of Shareholder's Equity

For the period June 6, 2022 (date of incorporation) to December 31, 2022

(In thousands)	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
Balance at June 6, 2022	$ —	$ —	$ —	$ —	$ —
Common stock issued	250	—	—	—	250
Capital contributions from parent		196,250	—	—	196,250
Net earnings (loss)	—	—	(2,799)	—	(2,799)
Unrealized gains (losses) on fixed maturity securities, net of income taxes	—	—	—	783	783
Effect of changes in discount rate assumptions during the period, net of income taxes	—	—	—	129	129
Balance at December 31, 2022	$ 250	$ 196,250	$ (2,799)	$ 912	$ 194,613

See the accompanying Notes to the Financial Statements.

AFLAC RE BERMUDA LTD.
Statement of Cash Flows
For the period June 6, 2022 (date of incorporation) to December 31, 2022

(In thousands)		**2022**
Cash flows from operating activities:		
Net earnings (loss)	$	(2,799)
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:		
Change in receivables and advance premiums		(520)
Change in accrued investment income		(560)
Increase in policy liabilities		4,239
Change in income tax liabilities		(744)
Other, net		1,066
Net cash provided (used) by operating activities		**682**
Cash flows from investing activities:		
Proceeds from investments sold, matured, or repaid:		
Available-for-sale fixed maturity securities		—
Cost of investments acquired:		
Available-for-sale fixed maturity securities		—
Net cash provided (used) by investing activities		—
Cash flows from financing activities:		
Common stock issued		250
Capital contribution received from parent		196,250
Net cash provided (used) by financing activities		**196,500**
Effect of exchange rate changes on cash and cash equivalents		**—**
Net change in cash and cash equivalents		**197,182**
Cash and cash equivalents, beginning of period		**—**
Cash and cash equivalents, end of period	**$**	**197,182**
Supplemental disclosures of cash flow information:		
Noncash investing activities:		
Available-for-sale fixed maturity securities received as consideration for reserve liabilities assumed	**$**	**37,009**

See the accompanying Notes to the Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Aflac Re Bermuda Ltd., (Aflac Re or the Company) is a wholly-owned subsidiary of American Family Life Assurance Company of Columbus (Aflac or the Parent). Aflac is a wholly-owned subsidiary of Aflac Incorporated (Aflac Inc. or the Ultimate Parent), a United States of America (U.S.) Corporation. Aflac Inc. and its subsidiaries primarily sell supplemental health and life insurance in the U.S. and Japan. Aflac Inc.'s insurance business is marketed and administered through Aflac in the U.S. and through Aflac Life Insurance Japan Ltd. (ALIJ) in Japan.

The Company was incorporated as a Bermuda exempted company on June 6, 2022 and licensed as a Class C insurer, limited to internal reinsurance business, by the Bermuda Monetary Authority (BMA), under the Bermuda Insurance Act of 1978 (the Act), on August 25, 2022.

The Company was principally formed to provide reinsurance solutions to Aflac Inc.'s Japan and U.S. insurance subsidiaries. Effective October 1, 2022, the Company entered into a reinsurance agreement with ALIJ whereby the Company assumed on a coinsurance basis certain Japanese yen-denominated in-force blocks of cancer insurance policies.

Basis of Presentation

The Company prepares its financial statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB). In these Notes to the Financial Statements, references to U.S. GAAP issued by the FASB are derived from the FASB Accounting Standards Codification (ASC). The Company's financial statements have been prepared for the period from June 6, 2022 (date of incorporation) to December 31, 2022.

The preparation of financial statements in accordance with U.S. GAAP requires the Company to make estimates when recording transactions resulting from business operations, based on information currently available. It also requires disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results could differ from management's estimates and assumptions. The most significant items in the Company's balance sheet that involve a significant degree of accounting estimates and actuarial determinations subject to changes in the future are: (i) valuation of investments, (ii) estimation of liabilities for future policy benefits, and (iii) income taxes. These accounting estimates and actuarial determinations are sensitive to market conditions, investment yields, interest rates, mortality, morbidity and terminations by policyholders. As additional information becomes available, or actual amounts are determinable, the recorded estimates are revised and reflected in operating results. Although some variability is inherent in these estimates, the Company believes the amounts provided are reasonable and reflective of management's best estimates.

Significant Accounting Policies

The Company has early adopted accounting guidance issued by Accounting Standards Update (ASU) 2018-12 *Financial Services - Insurance: Targeted Improvements to the Accounting for Long-Duration Contracts*, which is reflected below in certain significant accounting policies. Refer to Note 2 for further information on the adopted and pending adoption accounting guidance.

Foreign Currency Transactions

The Company is the reinsurer under reinsurance treaties that are denominated in foreign currencies. For transactions denominated in foreign currency, income and expenses are recorded at the average exchange rate for the period, while assets and liabilities are recorded using the spot exchange rate in effect at the end of the reporting period. Generally, foreign exchange gains and losses that result from the measurement process are reported as a component of net realized gains (losses) in net earnings. Change in the fair value of foreign currency denominated available-for-sale fixed-maturity securities due to changes in foreign currency exchange rates are reported in other comprehensive income (OCI).

Insurance Revenue and Expense Recognition

All of the Company's assumed reinsurance contracts are classified as long-duration contracts consistent with the accounting classification of the underlying policies, because the contract provisions generally cannot be changed or canceled during the contract period. Premiums are recognized as earned premiums over the premium-paying periods when due. When earned premiums are reported, the related amounts of benefits and expenses are charged against such revenues. This association is accomplished by means of annual increases or decreases to the liability for future policy benefits (LFPB) and the deferral and subsequent amortization of policy acquisition costs. Advance premiums are deferred and recognized when due over the regularly scheduled premium payment period.

Benefit expense is bifurcated between benefits and claims and reserve remeasurement (gains) losses. The net premium ratio (NPR) is used to measure benefit expense and is calculated as the ratio of the present value of actual and future expected benefits and expenses to the present value of actual and future expected gross premiums. A revised NPR is calculated as of the beginning of each reporting period using updated future cash flow expectations.

Reserve remeasurement (gains) losses represent the difference between two reserve measures both calculated as of the beginning of the current reporting period using the same locked-in discount rates. One reserve measure uses the NPR as of the end of the prior reporting period, and the second uses the revised NPR. Benefits and claims represent the difference in the liability balance calculated as of the beginning of the current reporting period and the end of the current reporting period both using the revised NPR and the locked-in discount rates. The locked-in interest accretion rate utilized for accretion of interest expense on insurance reserves is the original discount rate used at contract issue date.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, money market instruments, and other debt instruments with a maturity of 90 days or less when purchased.

Investments

Investments in fixed-maturity debt securities are classified as available-for-sale (AFS) and are carried at fair value. The difference between fair value and amortized cost is recorded as an unrealized gain or loss, net of deferred income taxes, as part of OCI and is also included in accumulated comprehensive income (AOCI). Amortized cost of debt securities is based on the Company's purchase price adjusted for accretion of discount, or amortization of premium, and recognition of impairment charges, if any, and equals the face or par value at maturity or the call date, if applicable. Interest on AFS fixed-maturity securities is reported as interest income, which is a component of net investment income in the statement of earnings, when earned and is adjusted for amortization of any premium or discount.

The Company uses the specific identification method to determine gains or losses resulting from securities transactions. Realized gains and losses are recorded in net realized gains (losses) in the statement of earnings. Securities transactions are accounted for based on fair values as of the trade date of the transaction. Securities transactions with affiliates are accounted for based on fair values as of the transfer date.

For AFS fixed-maturity securities, the Company evaluates estimated credit losses only when the fair value of the AFS fixed-maturity security is below its amortized cost basis. Credit loss changes are recorded as a component of net realized gains (losses) in the statement of earnings.

The Company has elected not to measure an allowance on accrued investment income for all asset types, because the uncollectible accrued investment income is written off in a timely manner. The Company writes off accrued investment income when it is more than ninety days past due by reducing interest income, which is a component of net investment income in the statement of earnings.

Policy Liabilities

For long-duration reinsurance contracts, the Company calculates an integrated reserve that represents all payments under the reinsurance contract including future expected claims and unpaid policy claims and related expenses. The LFPB is measured using the net level premium method.

All existing policies at the time of entering into a reinsurance contract are included in reinsurance contract inception-year annual cohorts based on product type. Contracts assumed through reinsurance that are issued subsequent to entering into the reinsurance agreement are grouped into annual calendar-year cohorts based on the direct policy's issue date and product type.

The LFPB is determined as the present value of future policy benefits to be paid to policyholders and certain related expenses less the present value of future net premiums receivable under the Company's reinsurance contracts, where future net premiums receivable are future gross premiums receivable under the contract multiplied by the NPR.

Future policy benefits are calculated using assumptions and estimates including mortality, morbidity, termination (also referred to as lapses), expense, and discount rates. The assumptions and estimates that the Company uses depend on its judgment regarding the likelihood of future events and are inherently uncertain.

Cash flow assumptions (mortality, morbidity, and termination) are established at policy inception and are evaluated each quarter to determine if an update is needed. To facilitate a more detailed review of cash flow assumptions, experience studies are performed annually during the third quarter. Changes in cash flow assumptions are the result of applying the updated best-estimate assumptions as of the beginning of the reporting period and are recognized in reserve remeasurement (gains) losses in the statement of earnings. Expense assumptions are established at policy inception and determined for each issue-year cohort as a percentage of paid claims. These expense assumptions are locked-in and remain unchanged over the term of the insurance policy. Actual experience is reflected in the calculation of future policy benefits, and changes in the liability due to actual experience are recognized in reserve remeasurement (gains) losses in the statement of earnings.

Discount rates used to calculate net premiums are locked in at policy inception and represent the basis to recognize interest expense in the statement of earnings. Discount rates used to measure the carrying value of the LFPB in the balance sheet are updated each reporting period, and the difference between the liability balances calculated using the locked-in discount rates and the updated discount rates is recognized in AOCI.

The Company's discount rate methodology incorporates constructing a discount rate curve for discounting cash flows used to calculate the LFPBs, reflective of the characteristics of the reinsurance liabilities, such as currency and tenor. Discount rates comprising each curve are determined by reference to upper-medium grade (low credit risk) fixed-income instrument yields that reflect the duration characteristics of the corresponding reinsurance liabilities. The Company uses for these yields single-A rated fixed income instruments with credit ratings based on international rating standards. Where only local ratings are available, the Company selects the fixed-income instruments with local ratings that are equivalent to a single-A rating based on international rating standards. The methodology is designed to prioritize observable inputs based on market data available in the local debt markets where the respective policies were issued in the currency in which the policies are denominated. For the discount rates applicable to tenors for which the single-A debt market is not liquid or there is little or no observable market data, the Company uses various estimation techniques consistent with the fair value guidance in ASC 820, which include, but are not limited to: (i) for tenors where there is less observable market data and/or the observable market data is available for similar instruments, estimating tenor-specific single-A credit spreads and applying them to risk-free government rates; (ii) for tenors where there is very limited or no observable single-A or similar market data, interpolation and extrapolation techniques.

The locked-in discount rate used for the computation of interest accretion on LFPBs is determined separately for each issue-year cohort as a single discount rate, calculated as the weighted-average of monthly upper-medium grade (low credit risk) fixed-income instrument forward curves in the calendar year, determined using the methodology described above. The single discount rate for each issue-year cohort is determined by solving for a rate that produces an equivalent NPR to the forward curve and will remain unchanged after the calendar year of issue.

For internal replacements of reinsured policies that are determined to be substantially changed, policy liabilities related to the original policy that was replaced are immediately released, and policy liabilities are established for the new insurance contract. The policy reserves are evaluated based on the new policy features, and changes are recognized at the date of contract change/modification. For internal replacements of reinsured policies that are substantially unchanged, no changes to the reserves are recognized. For modifications that are not integrated with the base policy, new coverage is recognized as a separately issued contract within the current cohort.

Income Taxes

The Company has elected, pursuant to Section 953(d) of the U.S. Internal Revenue Code of 1986, to operate subject to U.S. federal income tax laws. Deferred income taxes are recognized for temporary differences between the financial reporting basis and income tax basis of assets and liabilities, based on enacted tax laws and statutory tax rates applicable to the periods in which the temporary differences are expected to reverse. The Company records deferred tax assets for tax positions taken based on its assessment of whether the tax position is more likely than not to be sustained based upon examination by taxing authorities. A valuation allowance is established for deferred tax assets when it is more likely than not that an amount will not be realized.

The Company files a consolidated U.S. federal income tax return with Aflac Inc., its Ultimate Parent and other affiliated entities. Income taxes are allocated to each subsidiary based on the taxes that each entity would pay if it filed a separate federal income tax return, pursuant to a board-of-directors approved tax allocation agreement.

2. ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

ASU 2018-12 Financial Services - Insurance: Targeted Improvements to the Accounting for Long-Duration Contracts, as clarified and amended by:

ASU 2019-09 Financial Services - Insurance: Effective Date
ASU 2020-11 Financial Services - Insurance: Effective Date and Early Application

In August 2018, the FASB issued amendments that significantly changed how insurers and reinsurers account for long-duration contracts. The amendments changed prior recognition, measurement, presentation, and disclosure requirements. Issues addressed in the new guidance include: 1) a requirement to review and, if there is a change, update assumptions for the liability for future policy benefits at least annually, and to update the discount rate assumption quarterly, 2) accounting for market risk benefits at fair value, 3) simplified amortization for deferred acquisition costs, and 4) enhanced financial statement presentation and disclosures. The new guidance is effective for financial statements issued for the period beginning January 1, 2023, but the Company early adopted the standard on October 1, 2022 (Adoption Date), in conjunction with the reinsurance transaction with ALIJ described in Note 8 (October 1, 2022 Transaction, or the Transaction). As noted in Note 1, the Company applied the Significant Accounting Policies in accordance with the new guidance to all policies assumed under the Transaction.

See Note 6 of these Notes to Financial Statements for expanded disclosures for future policy benefits required as a result of the amended guidance.

Accounting Pronouncements Pending Adoption

There are no accounting pronouncements pending adoption that are relevant or have impact on the Company’s financial statements.

3. INVESTMENTS

Net Investment Income

The components of net investment income for the period ended December 31 were as follows:

(In thousands)	2022
Fixed maturity securities	$ 106
Cash and cash equivalents	1,757
Gross investment income	1,863
Less investment expenses	0
Net investment income	$ 1,863

Investment Holdings

The amortized cost and fair value for the Company's investments in fixed-maturity securities are shown in the following table.

	2022				
(In thousands)	Amortized Cost	Allowance for Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale, carried at fair value through other comprehensive income:					
Fixed maturity securities:					
Yen-denominated:					
Japan government and agencies	$ 37,060	$ 0	$ 991	$ 0	$ 38,051
Total yen-denominated	37,060	0	991	0	38,051
Total securities available for sale	$ 37,060	$ 0	$ 991	$ 0	$ 38,051

Contractual Maturities

The contractual and economic maturities of the Company's investments in fixed maturity securities at December 31, 2022 were as follows:

(In thousands)	Amortized Cost	Fair Value
Available for sale:		
Due after 10 years	$ 37,060	$ 38,051
Total fixed maturity securities available for sale	$ 37,060	$ 38,051

Investment Concentrations

The Company's process for investing in credit-related investments begins with an independent approach to underwriting each issuer's fundamental credit quality. The Company evaluates independently those factors that it believes could influence an issuer's ability to make payments under the contractual terms of the Company's instruments. This includes a thorough analysis of a variety of factors including the issuer's country of domicile (including political, legal, and financial considerations); the industry in which the issuer competes (with an analysis of industry structure, end-market dynamics, and regulation); company-specific issues (such as management, assets, earnings, cash generation, and capital needs); and contractual provisions of the instrument (such as financial covenants and position in the capital structure). The Company further evaluates the investment considering broad business and portfolio management objectives, including asset/liability needs, portfolio diversification, and expected income.

Investment exposures that individually exceeded 10% of shareholder’s equity as of December 31 were as follows:

	2022		
(In thousands)	Credit Rating	Amortized Cost	Fair Value
Japan National Government[1]	**A+**	**$37,060**	**$38,051**

[1] Japan Government Bonds (JGBs) or JGB-backed securities

Net Realized Gains and Losses

Information regarding pretax net gains and losses from investments for the period ended December 31 is as follows:

(In thousands)		2022
Net realized gains (losses):		
Foreign currency gains (losses)	**$**	**(3,425)**
Total net realized gains (losses)	**$**	**(3,425)**

Unrealized Investment Gains and Losses

Information regarding changes in unrealized gains and losses from investments, net of taxes, recorded in AOCI for the period ended December 31, 2022 follows:

(In thousands)		2022
Changes in unrealized gains (losses):		
Fixed maturity securities, available for sale	**$**	**783**
Total change in unrealized gains (losses)	**$**	**783**

Effect on Shareholder's Equity

The net effect on shareholder's equity of unrealized gains and losses from fixed-maturity securities at December 31 was as follows:

(In thousands)		2022
Unrealized gains (losses) on securities available-for-sale	**$**	**991**
Deferred income taxes		**(208)**
Shareholder's equity, unrealized gains (losses) on fixed-maturity securities	**$**	**783**

Allowance for Credit Losses

An investment in an AFS security may be impaired if the fair value falls below amortized cost. The Company regularly reviews its fixed-maturity security investments portfolio for declines in fair value. The Company's debt impairment model focuses on the ultimate collection of the cash flows from its investments and whether the Company has the intent to sell or if it is more likely than not that the Company would be required to sell the security prior to recovery of its amortized cost. The determination of the amount of impairments under this model is based upon the Company's periodic evaluation and assessment of known and inherent risks associated with the respective securities. Such evaluations and assessments are revised as conditions change and new information becomes available.

When determining the Company's intent to sell a security prior to recovery of its fair value to amortized cost, the Company evaluates facts and circumstances such as, but not limited to, future cash flow needs, decisions to reposition its security portfolio, and risk profile of individual investment holdings. The Company performs ongoing analyses of its liquidity needs, which includes cash flow testing of its policy liabilities, debt maturities, projected dividend payments, and other cash flow and liquidity needs.

The Company’s methodology for estimating credit losses for available-for-sale fixed maturity securities utilizes the discounted cash flow model, based on past events, current market conditions and future economic conditions, as well as industry analysis and credit ratings of the fixed-maturity securities. In addition, the Company evaluates the specific issuer’s probability of default and expected recovery of its position in the event of default based on the underlying financial condition and assets of the borrower as well as seniority and/or security of other debt holders in the issuer when developing management’s best estimate of expected cash flows.

As of December 31, 2022, the Company has not established an allowance for credit losses.

4. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

U.S. GAAP specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs create three valuation hierarchy levels. Level 1 valuations reflect quoted market prices for identical assets or liabilities in active markets. Level 2 valuations reflect quoted market prices for similar assets or liabilities in an active market, quoted market prices for identical or similar assets or liabilities in non-active markets or model-derived valuations in which all significant valuation inputs are observable in active markets. Level 3 valuations reflect valuations in which one or more of the significant inputs are not observable in an active market.

The following table presents the fair value hierarchy levels of the Company's assets and liabilities that are measured and carried at fair value on a recurring basis.

	December 31, 2022			
(In thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value**
Assets:				
Securities available-for-sale, carried at fair value:				
Fixed-maturity securities:				
Government and agencies	**$ 38,051**	**$ 0**	**$ 0**	**$ 38,051**
Total fixed-maturity securities	**38,051**	**0**	**0**	**38,051**
Cash and cash equivalents	**197,182**	**0**	**0**	**197,182**
Total assets	**$235,233**	**$ 0**	**$ 0**	**$ 235,233**

As of December 31, 2022, all of the Company's financial assets and liabilities are carried at fair value.

Fair Value of Financial Instruments

Fixed-maturity securities

The fair values of the Company’s public fixed-maturity securities are generally based on prices provided by third-party pricing vendors. The pricing data and market quotes the Company obtains from outside sources, including third-party pricing services, are reviewed internally for reasonableness. For the periods presented, the Company has not adjusted the quotes or prices it obtains from the pricing services and brokers it uses.

The following table presents the pricing sources for the fair values of the Company's fixed-maturity securities at December 31.

(In thousands)	2022 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Securities available for sale, carried at fair value:				
Fixed maturity securities:				
Government and agencies:				
Third party pricing vendor	$ 38,051	$ 0	$ 0	$ 38,051
Total government and agencies	38,051	0	0	38,051
Total securities available for sale	$ 38,051	$ 0	$ 0	$ 38,051

5. INCOME TAXES

The components of income tax expense (benefit) applicable to pretax earnings for the period ended December 31 were as follows:

(In thousands)	2022
Current	$ 908
Deferred	(1,652)
Total income tax expense (benefit)	$ (744)

In August 2022, the Inflation Reduction Act of 2022 (IRA) was signed into U.S. law. Effective January 1, 2023, the law imposes a 15% corporate alternative minimum tax rate. The Company does not anticipate any impacts from the new corporate minimum tax rate since its current tax rate is above the 15% minimum rate.

The annual provision for federal income tax in these financial statements differs from the annual amounts of income tax expense reported in the Company's income tax returns. Certain significant revenues and expenses are appropriately reported in different years with respect to the financial statements and tax returns.

Total income tax expense (benefit) for the period ended December 31 was allocated as follows:

(In thousands)	2022
Statements of earnings	$ (744)
Other comprehensive income (loss):	
Unrealized gains (losses) on fixed-maturity securities:	
Unrealized holding gains (losses) on fixed-maturity securities during period	208
Total income tax expense (benefit) related to items of other comprehensive income (loss)	208
Total income taxes	$ (536)

The income tax effects of the temporary differences that gave rise to deferred income tax assets and liabilities at December 31 were as follows:

(In thousands)	2022
Deferred income tax assets:	
Deferred policy acquisition costs	$ 712
Policy benefit reserves	1,061
Total deferred income tax assets	1,773
Deferred income tax liabilities:	
Policy and contract claims	110
Other basis differences in investments	219
Total deferred income tax liabilities	329
Net deferred income tax asset	1,444
Current income tax asset (liability)	(908)
Total income tax recoverable (liability)	$ 536

The application of U.S. GAAP requires the Company to evaluate the recoverability of deferred tax assets and establish a valuation allowance if necessary to reduce the deferred tax asset to an amount that is more likely than not expected to be realized. Based upon a review of the Company's anticipated future taxable income, and including all other available evidence, both positive and negative, the Company's management has concluded that, notwithstanding the items noted above, it is more likely than not that all other deferred tax assets will be realized.

At December 31, 2022, there were no material uncertain tax positions for which the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

The Company has entered into a Tax Allocation Agreement with Aflac Inc. and other eligible members of the consolidated federal income tax return of the Ultimate Parent. Under the agreement, the federal income tax liability of the consolidated group is allocated among participating members based on the member's tax liability as if the member had filed a separate federal income tax return. The member's tax liability is settled with the Ultimate Parent at the time when the Ultimate Parent is required to make estimated federal income tax payments, payments related to the filing of the federal income tax return extension, and payments related to the filing of the federal income tax return.

6. POLICY LIABILITIES

Future Policy Benefits

The liability for future policy benefits is determined as the present value of future benefits to be paid by the Company under the October 1, 2022 Transaction on the reinsured insurance policies and certain related expenses less the present value of future net premiums receivable under the Company's reinsurance contracts, where net premiums receivable are gross premiums receivable under the contract multiplied by the NPR. See Note 1 of these Notes to the Financial Statements for additional information.

The following table presents changes in the present value of expected net premiums and the present value of expected future policy benefits by disaggregated by product type.

(In thousands)	December 31, 2022 Cancer
Present value of expected premiums	
Balance at June 6, 2022	$ 0
Beginning balance at original discount rate	0
Effect of changes in cash flow assumptions	0
Effect of actual variances from expected experience	0
Adjusted beginning of period balance	0
Issuances	22,725
Interest accrual	92
Net premium earned [(1)]	(522)
Foreign currency remeasurement	1,541
Other	0
Ending balance at original discount rate	23,836
Effect of changes in discount rate assumptions	640
Balance at December 31, 2022	$ 24,476
Present value of expected future policy benefits	
Balance at June 6, 2022	$ 0
Beginning balance at original discount rate	0
Effect of changes in cash flow assumptions	0
Effect of actual variances from expected experience	0
Adjusted beginning of period balance	0
Issuances	57,873
Interest accrual	240
Benefit payments	(465)
Foreign currency remeasurement	3,983
Other	0
Ending balance at original discount rate	61,631
Effect of changes in discount rate assumptions	505
Balance at December 31, 2022	62,136
Net liability for future policy benefits	37,660
Less: reinsurance recoverable	0
Net liability for future policy benefits after reinsurance recoverable	$ 37,660

[(1)] *Net premiums earned represent the portion of gross premiums collected from policyholders that is used to fund expected benefit payments*

The following table presents a reconciliation of the disaggregated rollforwards above to the ending future policy benefits presented in the balance sheet. The deferred reinsurance gain liability is presented together with the LFPB in the balance sheet and has been included as a reconciling item in the table below.

(In thousands)	December 31, 2022
Balances included in future policy benefits rollforward:	
Cancer	$ 37,660
Deferred reinsurance gain	3,515
Aggregate carrying amount in the balance sheet	$ 41,175

The table above includes unpaid policy claims reserves of $0.6 million at December 31, 2022, which are reported together with the LFPB as an integrated reserve in the balance sheet.

The following table presents the weighted-average interest rates and weighted-average liability duration (calculated using locked-in discount rate) by product type at December 31.

2022	
	Cancer
Weighted- average interest, original discount rate [1]	1.68 %
Weighted-average interest, current discount rate [1]	1.68 %
Weighted-average liability duration, using locked in discount rate (years)	13.4

[1] *The weighted-average interest rates are calculated using the reserve balances as the weights. No adjustments were made to observable market information*

Discount rates are determined using upper-medium grade (low-credit-risk) fixed-income instrument yields that reflect the duration characteristics of the liability. Locked-in discount rates at inception of the October 1, 2022 Transaction use the upper-medium grade (low-credit-risk) fixed-income instrument yields as of the inception date and solve for a single rate that produces an equivalent net premium ratio to that when using the forward curve. Discount rates are updated each reporting period and require estimation techniques (e.g., interpolation, extrapolation) for determination of points on the curve for which there is limited or no observable market data.

More specifically, the Company constructs a discount rate curve for discounting cash flows used to calculate liabilities for future policy benefits, reflective of the characteristics of the corresponding reinsurance liabilities, such as currency and tenor.

The Company's reinsurance liabilities for the cancer insurance policies assumed from ALIJ under October 1, 2022 Transaction are denominated in yen. A significant portion of policies are characterized by tenors exceeding the availability of liquid market data in Japan for a single-A rated (as a proxy for upper-medium grade) corporate yen-denominated debt. The discount rate curve is designed to prioritize the observable inputs where available, while past the last liquid point, the data is derived based on estimation techniques consistent with the fair value guidance in ASC 820. The discount curve utilizes liquid market indices tracking publicly traded yen-denominated single-A corporate debt for the initial 10-year tenor. For the bonds within these market indices where only local ratings are available, the Company prioritizes the bonds with local ratings that are equivalent to a single-A rating based on international rating standards.

For the discount rates applicable to tenors for which the Japan single-A debt market is not liquid but there is sufficient observable market data and/or the observable market data is available for similar instruments (between 10 and 30 years), the Company estimates tenor-specific single-A credit spreads and applies them to risk-free government rates. Lastly, for the tenors where there is limited or no observable single-A or similar market data or risk-free government rates (beyond 30 years), the discount curve is derived by extrapolation of risk-free rates beyond their last liquid point following the Smith-Wilson method and grading of the estimated forward credit spread anchored by the ultimate forward rate. The ultimate forward rate is based on the economic value-based solvency regime, which is consistent with the International Association of Insurance Supervisors (IAIS) Insurance Capital Standards (ICS) (which is expected to be introduced in Japan in 2025), and is adjusted for credit and inflation components.

For the period ended December 31, 2022, the Company recognized approximately $0.1 million in OCI due to changes in the future policy benefits estimate from updating the discount rate assumptions. During the period ended December 31, 2022, there were no changes to the methods used to determine the discount rates.

Mortality rate assumptions are based on industry tables and adjusted for the Company's actual or expected experience where credible or appropriate. These assumptions typically will vary by age, gender, and other demographic characteristics such as smoking status.

Morbidity assumptions are based on the Company's internal data and consider emerging experience. These assumptions are reflective of the coverage and benefits provided and generally vary by age, gender, duration, and any other material policyholder characteristics. In cases where a calendar-year trend is significant, future cash flow projections may include a trend adjustment.

Lapse assumptions are set based on actual or expected experience. These lapse and total termination rate assumptions will vary by line of business and with policyholder characteristics such as duration. Policy provisions, such as reaching premium paid up status, are taken into account when setting assumptions.

The Company performs an annual review of its assumptions during the third quarter. As this business was assumed by the Company on October 1, 2022, an annual review of assumptions has not been completed, as there were no indicators that assumptions had changed as of December 31, 2022. Therefore, no reserve remeasurement (gain) loss has been recognized in the statement of earnings for the period ended December 31, 2022. There were no changes to the inputs, judgments, assumptions and methods used in measuring the LFPB during the period ended December 31, 2022.

The following table summarizes the amount of net earned premiums recognized in the statement of earnings disaggregated by product type.

(In thousands)	**2022**
Net earned premiums:	
Cancer	**$ 952**
Total	**$ 952**

The following table summarizes the amount of interest expense related to insurance contracts recognized in total benefits and claims, net in the statement of earnings disaggregated by product type.

(In thousands)	**2022**
Interest expense:	
Cancer	**$ 144**
Total	**$ 144**

The following tables summarize the amount of undiscounted expected future gross premiums and expected future benefits and expenses and discounted (discounted at the current period discount rate) expected future gross premiums and expected future benefits and expenses disaggregated by product type. Future gross premiums represent the expected amount of future premiums to be received. Benefits and expenses are generally greater in the later years of a policy, which may result in future gross premiums lower than future benefit and expense payments.

	December 31, 2022	
(In thousands)	**Gross Premiums**	**Benefits and Expenses**
Undiscounted expected future gross premiums and expected future benefits and expenses:		
Cancer	**$ 56,456**	**$ 76,290**
Total	**$ 56,456**	**$ 76,290**

	December 31, 2022	
(In thousands)	**Gross Premiums**	**Benefits and Expenses**
Discounted expected future gross premiums and expected future benefits and expenses:		
Cancer	**$ 48,291**	**$ 61,995**
Total	**$ 48,291**	**$ 61,995**

The Company incurred no loss expense as a result of NPR capping for the period ended December 31, 2022.

7. REINSURANCE

The Company's primary business strategy is to periodically enter into reinsurance transactions with affiliated companies to reinsure long-term insurance business. For each of its reinsurance agreements, the Company determines whether the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. For fixed quota-share coinsurance such as the October 1, 2022 Transaction, reinsurance premiums and benefits paid or provided are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Effective October 1, 2022, the Company entered into a reinsurance agreement with ALIJ, whereby the Company assumed a 0.5% fixed quota-share block of certain in force cancer business denominated in yen. Pursuant to the terms of the reinsurance agreement, the Company pays ALIJ an expense allowance which is determined as a fixed portion of collected premiums. Settlements are made quarterly with ALIJ and all settlements are denominated in yen.

As part of the October 1, 2022 Transaction, the Company received assets of approximately $37.0 million and assumed reserves of approximately $33.9 million. From October 1, 2022 to December 31, 2022, the yen strengthened relative to U.S. dollar by approximately 8.4% causing assumed reserves to increase by approximately 9.4%, which resulted in a foreign exchange remeasurement loss of approximately $3.2 million reported in net realized gains (losses) in the statement of earnings. The Company has also recognized a deferred reinsurance gain liability, which is amortized into income over the expected premium period based on annualized premiums. The remaining unamortized balance of deferred reinsurance gain liability is $3.5 million, at December 31, 2022, and is included in future policy benefits in the balance sheet.

The following table shows the significant impacts in the Company's financial statements from the effects of assumed reinsurance for the period ended December 31.

(In thousands)	**2022**
Balance Sheet:	
Amounts receivable for reinsurance	**$ 520**
Future policy benefits	**41,175**
Other liabilities	**2**
Statement of Earnings:	
Net earned premiums	**$ 952**
Benefits and claims	**1,054**
Insurance and other expenses	**238**

8. SHAREHOLDER'S EQUITY

Common Stock

At December 31, 2022, the Company had 250,000 shares of common stock authorized, issued and outstanding. All outstanding shares of common stock are 100% owned by Aflac, a wholly-owned subsidiary of Aflac Inc.

Accumulated Other Comprehensive Income

OCI refers to unrealized items that are not yet recognized in the statement of earnings for the current reporting period. AOCI represents the accumulation of OCI components and is reported separately in the balance sheet.

The table below is a reconciliation of AOCI by component for the period ended December 31.

Changes in Accumulated Other Comprehensive Income

	2022		
(In thousands)	**Unrealized Gains (Losses) on Fixed Maturity Securities**	**Effect of changes in discount rate assumptions**	**Total**
Balance at June 6, 2022	**$ 0**	**$ 0**	**$ 0**
Other comprehensive income (loss) before reclassification	**783**	**129**	**912**
Amounts reclassified from accumulated other comprehensive income (loss)	**0**	**0**	**0**
Net current-period other comprehensive income (loss)	**783**	**129**	**912**
Balance at December 31, 2022	**$ 783**	**$ 129**	**$ 912**

All amounts in the table above are net of tax.

The Company did not have any reclassifications out of AOCI for the period ended December 31, 2022 .

9. RELATED PARTIES

All outstanding shares of the Company are owned by Aflac, a U.S. life insurance company domiciled in Nebraska. The Company did not pay any dividends during 2022. The Company received initial capital contributions from Aflac of $196.5 million during 2022.

As discussed in Note 7, the Company's principal business operations are reinsurance transactions with affiliates.

The following details the amounts due from or due to related parties at December 31.

(In thousands)	**December 31, 2022**	
	Receivables	**Payables**
Parent	$ —	$ 15
Other Affiliates	—	837
	$ —	$ 852

The Company entered into a Master Intercompany Services and Facilities Agreement with Aflac Inc. for personnel services, use of facilities and managerial expertise. The management fee is an expense-based allocation that includes a small intercompany profit charge. Total management fees expense was $1.4 million for the period ended December 31, 2022.

The Company entered into a Master Intercompany Services and Facilities Agreement with Aflac for personnel services, use of facilities and managerial expertise. The management fee is an expense-based allocation that includes a small intercompany profit charge. For the period ended December 31, 2022, no expenses have been incurred.

The Company entered into an Investment Advisory Agreement with Aflac Asset Management, LLC (AAM), an affiliate. The Company pays AAM a quarterly management fee for assets under management. For the period ended December 31, 2022, the Company incurred immaterial amount of management fees.

The Company entered into a Capital Maintenance Agreement (CMA) with Aflac to ensure that the Company is able to meet all regulatory minimum capital levels in the amount of at least 130% of Aflac Re's enhanced capital requirement as calculated under the Act. The Company provides Aflac the calculation of its enhanced capital requirement on a quarterly basis to determine if additional capital contributions are necessary. If a capital contribution is needed, the Ultimate Parent will make a capital contribution to the Parent, which will in turn make a capital contribution to Aflac Re. The total amount of capital contributions are not to exceed $250 million during the entire period the CMA is in effect.

The Company made net tax payments to the Ultimate Parent of $0 million for the period ended December 31, 2022 related to the Tax Allocation Agreement as described in Note 5.

10. COMMITMENTS AND CONTINGENCIES

The Company is subject to legal and regulatory actions considered to be in the normal course of business. The Company may also be subject to litigation that could occur in the normal course of business. The final results of any litigation cannot be predicted with certainty. There are inherent uncertainties in determining the potential impact to the Company's financial statements from litigation or other regulatory matters.

11. STATUTORY REQUIREMENTS

The Company is licensed by the BMA as a long-term insurer and is subject to the Act. The Company is required to file an annual return for its Bermuda Solvency Capital Requirement (BSCR) which utilizes an Economic Balance Sheet (EBS) framework to determine the Company's Enhanced Capital Requirement (ECR). The Company is also subject to a Minimum Margin of Solvency (MMS) related to its Statutory Financial Statements (SFS). MMS is equal to the greater of $500,000 or 1.5% of the total statutory assets and the MMS cannot be lower than 25% of ECR. At December 31, 2022, the Company's capital exceeded the MMS.

Under the EBS framework, the Company is required to value assets equal to U.S. GAAP fair values and insurance reserves are valued using technical provisions which consist of a best estimate liability plus a risk margin. The best estimate liability can be calculated by applying the standard approach or the scenario approach. The standard approach uses discount rates for insurance reserves as prescribed by the BMA. The scenario approach uses a discount rate based on the yield of eligible assets owned by the insurer as determined using a series of nine prescribed stress scenarios.

At December 31, 2022, the Company's ECR ratio was 5,040%.

Under the Act, the Company is prohibited from paying dividends in an amount that exceeds 25% of the prior year's statutory capital and surplus without Board approval and an affidavit that is signed by at least two Directors and the Company's Principal Representative. Aflac Re is not permitted to pay any dividends that would cause the Company to fail to meet its minimum capital requirements.

12. SUBSEQUENT EVENTS

Events that occurred subsequent to December 31, 2022, have been evaluated for recognition or disclosure in the Company’s Financial Statements and Notes to the Financial Statements through June 12, 2023, the date these financial statements were available to be issued.

On January 1, 2023, the Company entered into a $400 million Uncommitted and Revolving Credit Line Agreement with Aflac Inc. to provide the Company access to capital related to the intercompany derivative contracts and for general operating purposes.

During January 2023, the Company entered into a reinsurance agreement on a coinsurance basis with ALIJ to assume an additional 28% quota share of yen-denominated cancer policies and riders. This transaction resulted in the assumption of approximately $2.1 billion of reserves associated with these policies and the transfer of yen and U.S. dollar denominated assets supporting those reserves of approximately $1.9 billion.

Concurrently, the Company entered into a series of foreign currency forward contracts with Aflac Inc. to hedge the exchange rate risk associated with yen denominated liabilities being supported substantially with U.S. dollar denominated investments.